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June 16, 2006

AGENDA ITEM 5a

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT: Policy Subcommittee History**
- II. PROGRAM: Total Fund**
- III. RECOMMENDATION: Information**
- IV. ANALYSIS:**

As requested at the April 2006 Subcommittee meeting, this agenda item provides a brief overview of the history of the Policy Subcommittee. Over the years, the CalPERS Investment Committee has established policy for the governance and administration of the Investment Program. The Committee has set policy for the Investment Office as an enterprise as well as for each of the asset classes. The Committee sets policy through actions taken by the Policy Subcommittee as well as by actions of the full Committee.

A summary of the Investment Policy Subcommittee milestones since its formation in 1995 is set forth below.

Investment Policy Subcommittee Milestones

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| 1995 | In the summer of 1995, the Investment Committee discussed the need to formalize a process for adoption and amendment of investment policies. At the direction of the Investment Committee, staff completed a preliminary review of existing policies and guidelines. Based upon the results of this review, the Investment Committee decided to establish an ad hoc committee to fully review and recommend revised policies for the development of a quality policy manual. |
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In September 1995, the Investment Committee formally established the Ad Hoc Committee on Investment Policies and Procedures. The committee was charged with developing a project scope and schedule, including determination of priority areas of review. The committee would meet monthly and determine the selection of appropriate outside consultant resources as necessary.

In 1996, the name of the Ad Hoc Committee was changed to the Investment Subcommittee on Policies, Guidelines and Procedures. Later that year, the name was shortened to the Investment Policy Subcommittee.

1996 –
2000

Over a four-year period, the CalPERS staff and consultants reviewed all existing policies, with the objective of conforming policy to existing practice. New and revised policies were submitted to the Subcommittee, which reviewed and recommended them, as appropriate, to the Investment Committee for approval.

As part of this comprehensive project, the following were accomplished:

- Review of policy guidelines/best practices from other pension funds
- Review and analysis of existing Investment policies and amendment or development of new policies as needed
- Creation of a policy approval process to formalize changes and adoption of new policies
- Creation of a manual structure, table of contents, and consistent format, terminology, and glossaries
- Implementation of copyright protection

Resources used during the project were the Investment Office, Legal Office, Office of Public Affairs, Wilshire Associates, Pension Consulting Alliance, and R. V. Kuhns & Associates.

A comprehensive Investment Policy Manual containing over 50 policies was completed and is available on the internet (as well as on CD or in hard copy upon request).

February 2001	<p>The Subcommittee completed its charge to conduct a comprehensive review and update to all investment policies.</p> <p>The Subcommittee recommended and the Investment Committee approved (by motion) the ongoing role of the Subcommittee to:</p> <ul style="list-style-type: none">• Review and recommend to the Investment Committee adoption of new and revised policies on a priority basis• Meet quarterly and as needed to conduct urgent business• Delegate to staff minor modifications to existing policies for presentation as consent items directly to the Investment Committee• Annually review and affirm its continuance as a subcommittee
September 2004	<p>In September 2004, the Investment Committee approved a formal delegation resolution (attached) to clearly delineate the roles and responsibilities of the Ad Hoc Committee and to formally adopt its name as the "Investment Policy Subcommittee."</p> <p>The resolution authorized the Subcommittee, under the direction of the Investment Committee, to:</p> <ul style="list-style-type: none">• Draft new policies and recommend modifications to existing policies to the Investment Committee• Provide periodic reports to the Investment Committee• Make other necessary or appropriate recommendations to the Investment Committee <p>The resolution required that the Subcommittee consist of at least three members.</p>
Summer 2005	<p>The Investment Policy Manual was revised to provide a single, centralized Master Glossary of Terms rather than individual glossaries for each policy. This facilitates consistency among definitions. A computer program was designed to facilitate online viewing of the complete glossary as well as asset class glossaries. The terms are cross-referenced with the policies and each term within a policy is linked to a pop-up window that displays the term definition.</p>
Spring 2006	<p>A comprehensive project began to once again review, update, and improve upon the existing body of investment policy. The objectives of the project are to achieve a more streamlined, consistent and referable policy and delegation framework. These objectives are aligned with the Investment Committee's emphasis on sound policy and compliance.</p> <p>The Subcommittee was presented with an overview of this project, as well as a timeline, at the April 14, 2006 Subcommittee meeting.</p>

V. STRATEGIC PLAN:

This item is not part of the Strategic Plan.

VI. RESULTS/COSTS:

Not applicable.

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